

DISTRICT COURT OF GUAM  
TERRITORY OF GUAM

## PACIFIC RENEWABLE ENERGY SOLUTIONS, INC.,

Plaintiff,

VS.

SEDNA AIRE AMERICAS, LLC,  
ENERGY SPECIALTY SOURCE, LLC,  
ALLAN E. VERHONICH, DAVE R. HEIN, and  
ROCK W. HENDERSON

## Defendants.

CIVIL CASE NO. 11-00019

## ORDER

re Motion to Compel Arbitration, and  
to Dismiss, or in the Alternative,  
Stay Proceedings

This matter is before the court on a Motion to Compel Arbitration, and to Dismiss, or in the Alternative, Stay Proceedings, filed by defendants Dave R. Hein and Rock W. Henderson.<sup>1</sup> See ECF No. 54. The matter was fully briefed by the parties, and having reviewed the pertinent pleadings and relevant case law, the court issues the following Order granting the motion to compel arbitration.

## I. BACKGROUND FACTS

Pacific Renewable Energy Solutions, Inc. (the “Plaintiff”) entered into an exclusive distributor agreement with defendant Sedna Aire Americas, LLC (“SAA”) for air conditioners that were advertised to use significantly less electricity to cool than conventional air conditioners

<sup>1</sup> Defendants Hein and Henderson shall collectively be referred to as the “Defendants.” On November 29, 2011, default judgment was entered against all defendants. *See* Default J., ECF No. 25. On December 13, 2011, the Defendants filed a Motion to Set Aside Clerk’s Default, followed by the filing of a Motion to Set Aside Default Judgment on January 30, 2012. ECF Nos. 27 & 30. The court granted both motions on April 2, 2013. *See* ECF No. 52.

1 through solar power. Compl. at ¶¶4 & 12-13, ECF No. 1. The Plaintiff alleged it was induced into  
2 expending monies in order to create and develop a new business in which SAA's air conditioning  
3 units would be the primary product. *Id.* at ¶14. According to the Plaintiff, it allegedly made several  
4 payments by and through its majority shareholder Western Sales Trading Company to SAA. *Id.* at  
5 ¶15. The Plaintiff further alleged it made additional payments to SAA, however, these payments  
6 were delivered to defendant Energy Specialty Source, LLC ("ESS") as a "beneficiary." *Id.* at ¶16.  
7 Among other things, the Plaintiff claimed (1) SAA delivered defective goods; (2) SAA's air  
8 conditioning units were not shipped as promised; and (3) the Plaintiff was induced to design a  
9 website for the new business venture and hire a marketing consultant. *Id.* at ¶¶11, 14 & 20. The  
10 Plaintiff further alleged that defendants Alan E. Verhonich, Rock W. Henderson and Dave R. Hein  
11 are members of SAA, while Defendants Henderson and Hein are allegedly members of ESS. *Id.*  
12 at ¶¶5 & 7.

13 On June 14, 2011, the Plaintiff commenced this diversity action.<sup>2</sup> *See* Compl., ECF No. 1.  
14 The Complaint alleged the following eight (8) claims:

- 15 • Count I: Breach of Contract against SAA and Verhonich;
- 16 • Count II: Breach of Express Warranty against SAA;
- 17 • Count III: Breach of Warranty of Merchantability and Fitness for a Particular Purpose  
against SAA;
- 18 • Count IV: Performance of Deceptive Trade Practices Under Guam's Deceptive Trade  
Practices-Consumer Protection Act against SAA;
- 19 • Count V: Intentional Misrepresentation against Verhonich, Hein and Henderson;
- 20 • Count VI: Negligent Misrepresentation against Verhonich, Hein, Henderson and SAA;
- 21 • Count VII: Unjust Enrichment, or in the Alternative, Constructive Fraud or Fraudulent  
Conveyance against Verhonich, Hein and Henderson; and
- 22 • Count VIII: Alter Ego and Piercing the Corporate Veil, against SAA, ESS, Verhonich,  
Hein and Henderson.

25 *Id.*

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27 <sup>2</sup> The Plaintiff alleged that SAA and ESS are limited liability companies organized in the  
state of Florida, and that defendants Verhonich, Hein and Henderson are residents of Florida. *Id.*  
28 at ¶¶3, 6 & 8-10.

1        After the court set aside the clerk's entry of default and the default judgment against the  
2 Defendants, in lieu of answering the Complaint, the Defendants filed the instant Motion to Compel  
3 Arbitration, and to Dismiss, or in the Alternative, Stay Proceedings. *See* ECF No. 54. The motion  
4 has been fully briefed, and the court is prepared to rule on the matter without the need for a  
5 hearing.<sup>3</sup>

6 **II. ANALYSIS**

7        According to the Defendants, the agreement between the Plaintiff and SAA contains an  
8 arbitration clause which mandates that this action proceed to binding arbitration. The contract  
9 provision specifically states: "Except as otherwise provided below, any controversy or claim arising  
10 out of or relating to this Agreement shall be submitted to final and binding arbitration before and  
11 in accordance with, the rules of the International Chamber of Commerce in Paris, France." *See*  
12 Exclusive Distributor Agreement (the "Agreement") at ¶13.7(a), ECF No. 55-3. The Defendants  
13 thus request the court to give the arbitration provision its full force and effect by dismissing or  
14 staying this action and compelling the Plaintiff to participate in arbitration.

15        The Plaintiff does not dispute the existence of the arbitration clause in the Agreement.  
16 Instead, the Plaintiff raises several arguments regarding the Defendants' standing to compel  
17 arbitration and the validity of the arbitration provision. The court will address these arguments  
18 separately.

19        **A. Arguments Regarding Standing to Compel Arbitration**

20        The Plaintiff first asserts that Defendants lack standing to compel arbitration since they were  
21 not signatories to the Agreement. *See* Opp'n at 2-4, ECF No. 56. Here, the Complaint asserts that  
22 the Agreement between the Plaintiff and SAA was signed by Verhonich "on behalf of himself and  
23 SAA" and Thomas Tanaka on behalf of the Plaintiff. *See* Compl. at ¶12, ECF No. 1. A review of  
24 the Agreement itself confirms this. *See* Agreement, ECF No. 55-3 at 4.

25        Generally, only a party to an arbitration contract can enforce the terms of that contract. *See*

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27        <sup>3</sup> Oral argument was not requested by the parties, and even if such a hearing were  
28 requested, the court exercises its discretion to render a decision on the basis of the written materials  
on file. *See* LR 16.1(e) of the Local Rule of Practice for the District Court of Guam.

1 *Britton v. Co-op Banking Group*, 4 F.3d 742, 744 (9th Cir. 1993) (“The right to compel arbitration  
2 stems from a contractual right,” which generally “may not be invoked by one who is not a party to  
3 the agreement and does not otherwise possess the right to compel arbitration.”) (citation omitted).  
4 Nevertheless, in certain circumstances, a nonsignatory to a contract may have standing to enforce  
5 an arbitration provision, such as when the nonsignatory is a third party beneficiary or agent. *See*  
6 *Comer v. Micor, Inc.*, 436 F.3d 1098, 1101 (9th Cir. 2006).

7 In this case, it is unclear whether the Defendants can be considered third party beneficiaries  
8 to the Agreement. According to the Complaint, defendants “Verhonich, Hein and Henderson . . .  
9 each benefitted from the delivery of monies” made by the Plaintiff. *See* Compl. at ¶65, ECF No.  
10 1. The Complaint also asserts that “Verhonich, Hein, Henderson, and SAA benefit[ted] from the  
11 negligent misrepresentations because they induced Plaintiff . . . to deliver money to SAA.” *Id.* at  
12 ¶71. Additionally, the allegations in the Complaint appear to support the notion that the Defendants  
13 were agents of SAA. Specifically, in Count VIII, which raises an Alter Ego and Piercing the  
14 Corporate Veil claim, the Plaintiff asserts that SAA and ESS “intermingle their asserts,” “are  
15 managed by their members without regard for limited liability company formalities,” and neither  
16 “sufficiently maintains a separate existence from Verhonich, Hein, and Henderson.” *Id.* at ¶¶94-96.  
17 The assertions in the Complaint are not dispositive of the matter, however, because the Agreement  
18 is silent as to whether the Defendants are in fact third party beneficiaries or agents of SAA. In fact,  
19 in their Reply to the Plaintiff’s Opposition, the Defendants maintain that they “did not receive any  
20 monetary benefit of said” Agreement and deny having any financial stake or interest in SAA. *Reply*  
21 *Br.* at 3, ECF No. 58.

22 In their Reply Brief, the Defendants appear to argue that if they are a non-party to the  
23 Agreement, then they should not be bound by the Agreement. Because the Defendants are  
24 proceeding *pro se* in this action, the court will construe the Defendants’ assertions liberally and  
25 assume they are raising an equitable estoppel claim.

26 “Equitable estoppel precludes a party from claiming the benefits of a contract while  
27 simultaneously attempting to avoid the burdens that contract imposes.” *Comer*, 436 F.3d at 1101  
28 (citation omitted). In the arbitration context, the Ninth Circuit has recognized the equitable estoppel

1 doctrine has generated two lines of cases.

2 Under the first of these lines, nonsignatories have been held to arbitration clauses  
3 where the nonsignatory knowingly exploits the agreement containing the arbitration  
4 clause despite having never signed the agreement. Under the second line of cases,  
5 signatories have been required to arbitrate claims brought by nonsignatories at the  
6 nonsignatory's insistence because of the close relationship between the entities  
7 involved.

8 *Id.* (internal quotations and citations omitted).

9 Because the Defendants as the nonsignatories are attempting to require the signatory  
10 Plaintiff to arbitrate its claims, it is the second line of cases that is relevant here. The United States  
11 Supreme Court in *Arthur Andersen LLP v. Carlisle* held that a litigant who is not a party to an  
12 arbitration agreement may invoke arbitration under the Federal Arbitration Act (the "FAA") if  
13 relevant state contract law allows the litigant to enforce the agreement. 556 U.S. 624, 632 (2009).  
14 The court has been unable to find a Guam case that discusses the equitable estoppel doctrine in the  
15 arbitration context, but the Supreme Court of Guam has recognized that "Guam's equitable estoppel  
16 doctrine was adopted from the California Civil Procedure law," *Mobil Oil Guam, Inc. v. Lee*, 2004  
Guam 9 ¶24, 2004 WL 1305314, \*6 (June 10, 2004), and thus the court will look to California law  
and cases for guidance.

17 Under California contract law,

18 [w]here a nonsignatory seeks to enforce an arbitration clause, the doctrine of  
19 equitable estoppel applies in two circumstances: (1) when a signatory must rely on  
20 the terms of the written agreement in asserting its claims against the nonsignatory  
21 or the claims are "intimately founded in and intertwined with" the underlying  
22 contract, and (2) when the signatory alleges substantially interdependent and  
23 concerted misconduct by the nonsignatory and another signatory and "the allegations  
24 of interdependent misconduct are founded in or intimately connected with the  
25 obligations of the underlying agreement."

26 *Kramer v. Toyota Motor Corp.*, 705 F.3d 1122, 1128-29 (9th Cir. 2013) (internal citations omitted).

27 The Plaintiff's second argument against enforcement of the arbitration provision is that the  
28 mere fact that this litigation relates to a contract is insufficient to compel the arbitration called for  
in that contract. *See Opp'n at 4-5*, ECF No. 56. Applying the above-mentioned equitable estoppel  
doctrine, the court disagrees with the Plaintiff's contention.

In this case, the court finds that the Plaintiff's claims against the Defendants are intimately

1 founded in and intertwined with the Agreement. The Complaint asserts that the Plaintiff entered  
2 into the Agreement with SAA to be the exclusive distributor of the SAA air conditioning units in  
3 Guam and Micronesia. Compl. at ¶¶12-13, ECF No. 1. SAA purportedly developed these air  
4 conditioning units to use significantly less electricity to cool than conventional air conditioners  
5 through solar power. *Id.* at ¶4. The Agreement required the Plaintiff to “make an initial investment”  
6 of \$60,000 to be credited toward future purchase orders and to “maintain in its warehouse at least  
7 fifty . . . pieces of equipment . . . at all times to ensure the continuous supply of the product in the  
8 territory.” Agreement at ¶1, ECF No. 55-1. The Agreement required the Plaintiff to “commit[] to  
9 an annual sale of not less than \$120,000.” *Id.* In relation to the Agreement, the Plaintiff made more  
10 than \$197,000 in payments to SAA. Compl. at ¶17, ECF No. 1.

11 In Count V, the Plaintiff asserts that Verhonich and the Defendants knowingly  
12 misrepresented facts to the Plaintiff, including assertions that the SAA air conditioners used less  
13 power than traditional air conditioning units when in fact they knew the SAA products did not  
14 operate as alleged. *Id.* at ¶64(a). Count V further asserts that the Plaintiff “relied on the  
15 misrepresentations by doing business with SAA and continuing to make payments to SAA even  
16 though SAA failed to perform under the Agreement” and that Verhonich and the Defendants  
17 benefitted from these misrepresentations. *Id.* at ¶¶65-66.

18 Similarly, in Count VI, the Plaintiff asserts that Verhonich and the Defendants made  
19 assertions to the Plaintiff “regarding the quality and effectiveness of SAA [air conditioning units]  
20 . . . as well as to the capacity of SAA to provide products to” the Plaintiff. *Id.* at ¶69. The Plaintiff  
21 asserts Verhonich and the Defendants were “negligent in ascertaining the truth of their statements”  
22 because “[h]ad any of them performed any tests on the SAA” units, they “would have found that  
23 their assertions regarding the qualities of their product were false” and they “should have known  
24 that SAA was incapable of performing as promised.” *Id.* at ¶70. The Plaintiff alleges Verhonich  
25 and the Defendants benefitted from the negligent misrepresentations which induced the Plaintiff  
26 to enter into business with SAA and continue making payments to SAA even though SAA failed  
27 to perform under the Agreement. *Id.* at ¶¶ 71-72.

28 The court finds that the Plaintiff’s claims in Counts V and VI rely upon the existence of the

1 Agreement and are intimately founded in and intertwined with the underlying Agreement  
2 obligations.

3 Furthermore, the court finds that the Plaintiff's claims in Counts V through VII against the  
4 Defendants allege substantially interdependent concerted collusion by the Defendants and another  
5 signatory, namely Verhonich, and that these allegations of interdependent misconduct are founded  
6 in or intimately connected with the obligations of the underlying Agreement. Moreover, although  
7 Counts I through IV of the Complaint do not specifically assert claims against the Defendants, in  
8 Count VIII the Plaintiff asks this court to pierce the corporate veil and treat SAA and ESS as  
9 alter egos of each and alter egos of their respective members (*i.e.*, Verhonich and the Defendants).  
10 Compl. at ¶97, ECF No. 1.

11 Based on the allegations in the Complaint, the court finds that the doctrine of equitable  
12 estoppel is applicable here such that the Defendants have standing to compel arbitration although  
13 they are nonsignatories to the Agreement between the Plaintiff and SAA.

14 **B. Arguments Regarding Validity of the Arbitration Provision**

15 Before the court addresses the Plaintiff's next arguments, it is important to first discuss  
16 general principles of the FAA.

17 The FAA governs the enforceability of arbitration agreements in contracts. *See* 9 U.S.C.  
18 § 1, *et seq.*; *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 24–26 (1991). The FAA reflects  
19 both a “liberal federal policy favoring arbitration agreements” and the “fundamental principle that  
20 arbitration is a matter of contract.” *AT & T Mobility LLC v. Concepcion*, \_\_\_\_ U.S. \_\_\_, 131 S. Ct.  
21 1740, 1745 (2011) (internal quotation marks and citations omitted); *see also Kilgore v. Keybank*,  
22 *Nat'l Ass'n*, 718 F.3d 1052, 1057 (9th Cir. 2013) (*en banc*) (“The FAA was intended to overcome  
23 an anachronistic judicial hostility to agreements to arbitrate, which American courts had borrowed  
24 from English common law.” (quoting *Mitsubishi Motors Corp. v. Soler Chrysler–Plymouth, Inc.*,  
25 473 U.S. 614, 625 n. 14 (1985))) and *Circuit City Stores, Inc. v. Adams*, 279 F.3d 889, 892 (9th Cir.  
26 2002) (“The [FAA] not only placed arbitration agreements on equal footing with other contracts,  
27 but established a federal policy in favor of arbitration, and a federal common law of arbitrability  
28 which preempts state law disfavoring arbitration.”).

1        In determining whether to compel a party to arbitration, the court may not review the merits  
2 of the dispute. Instead, the court's role is limited "to determining (1) whether a valid agreement to  
3 arbitrate exists and, if it does, (2) whether the agreement encompasses the dispute at issue." *Cox*  
4 *v. Ocean View Hotel Corp.*, 533 F.3d 1114, 1119 (9th Cir. 2008) (internal quotation marks and  
5 citation omitted). If the answers to both these questions are yes, the court must compel arbitration.  
6 *See Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 218 (1985).

7        In determining the validity of an arbitration agreement, the court applies state law contract  
8 principles. 9 U.S.C. § 2. Section 2 of the FAA provides that "[a] written provision in . . . a  
9 contract evidencing a transaction involving commerce to settle by arbitration a controversy  
10 thereafter arising out of such contract . . . shall be valid, irrevocable, and enforceable[.]" 9 U.S.C.  
11 § 2. Section 2 also includes a savings clause that allows arbitration agreements to be invalidated  
12 only "upon such grounds as exist at law or in equity for the revocation of *any* contract." *Id.*  
13 (emphasis added). Thus, the FAA does not permit arbitration agreements to be declared  
14 unenforceable by contract defenses "that apply only to arbitration or derive their meaning from the  
15 fact that an agreement to arbitrate is at issue." *Concepcion*, 131 S. Ct. at 1746 (citation omitted).  
16 As the Supreme Court's recent opinion in *Concepcion* makes clear, if a doctrine generally  
17 applicable to contract enforceability such as unconscionability, is applied by a state in a fashion that  
18 disfavors arbitration, then that rule interferes with arbitration and is preempted by the FAA. *Id.* at  
19 1747–50 ("When state law prohibits outright the arbitration of a particular type of claim, the  
20 analysis is straightforward: The conflicting rule is displaced by the FAA. . . . [A] court may not rely  
21 on the uniqueness of an agreement to arbitrate as a basis for a state-law holding that enforcement  
22 would be unconscionable, for this would enable the court to effect what . . . the state legislature  
23 cannot.") (internal quotation marks omitted). Thus, "[s]tates cannot require a procedure that is  
24 inconsistent with the FAA, even if it is desirable for unrelated reasons." *Id.* at 1753; *see also*  
25 *Coneff v. AT & T Corp.*, 673 F.3d 1155, 1159 (9th Cir. 2012).

26        In the present case, despite the court's finding that the Defendants may compel arbitration,  
27 the Plaintiff raises two arguments concerning the validity of the arbitration provision in the  
28 Agreement. First, the Plaintiff asserts that the arbitration provision is invalid under Guam law,

1 specifically Title 5, Guam Code Annotated, Section 32104, which provides in pertinent part:

2       *An agreement to arbitrate constitutes an important waiver of the right of access to  
3 the courts. Therefore, as to any agreement to arbitrate executed after the effective  
4 date of this chapter, the agreement to arbitrate any matter arising out of the sale of  
5 goods or services for any amount of consideration, or any matter or contingency  
6 arising therefrom, shall be treated as a waiver of rights under this chapter, is not  
7 binding on any consumer unless there is full compliance both with this section and  
8 with this chapter, each party is represented by an attorney, and the agreement to  
9 arbitrate is signed by the attorneys representing each of the parties.*

10       5 GUAM CODE ANN. § 32104(c) (emphasis added).

11       The Plaintiff asserts that the Defendants have not shown that the Plaintiff has waived  
12 protections afforded it under Guam's Consumer Protection laws, especially since such waivers must  
13 be memorialized "by an express provision in a written contract signed by both the consumer and  
14 the consumer's attorney." 5 GUAM CODE ANN. § 32104(a)(3). The Plaintiff notes that the  
15 Agreement here does not contain a provision acknowledging that the Plaintiff is expressly waiving  
16 rights and protections afforded it under Guam law. *See* Opp'n at 6, ECF No. 56.

17       The court finds that these provisions of Guam law do not render the arbitration provision  
18 in the Agreement unenforceable. As noted above, the savings clause of Section 2 of the FAA  
19 "permits agreements to arbitrate to be invalidated by 'generally applicable contract defenses, such  
20 as fraud, duress, or unconscionability,' but not by defenses that apply only to arbitration or that  
21 derive their meaning from the fact that an agreement to arbitrate is at issue." *Concepcion*, 131  
22 S. Ct. at 1744. The Ninth Circuit has described Section 2's preemption as follows:

23       The FAA preserves generally-applicable contract defenses and thus allows for  
24 invalidation of arbitration agreements in limited circumstances—that is, if the clause  
25 would be unenforceable "upon such grounds as exist at law or in equity for the  
26 revocation of *any* contract." 9 U.S.C. § 2 (emphasis added). However, any other  
27 state law rule that purports to invalidate arbitration agreements is preempted because  
28 the [FAA] "withdrew the power of the states to require a judicial forum for the  
resolution of claims which the contracting parties agreed to resolve by arbitration."  
*Southland Corp v. Keating*, 465 U.S. 1, 10 (1984). In short, a state statute or  
judicial rule that applies only to arbitration agreements, and not to contracts  
generally, is preempted by the FAA[.] . . . The federal government's authority to  
preempt state laws invalidating arbitration agreements derives from the Supremacy  
Clause of the Constitution. U.S. Const. art. VI ("This Constitution, and the laws of  
the United States . . . shall be the supreme law of the land; and the judges in every  
State shall be bound thereby, any thing in the constitution or laws of any State to the  
contrary notwithstanding.").

29       *Kilgore v. KeyBank, Nat. Ass'n*, 673 F.3d 947, 956 (9th Cir. 2012).

1 To declare the arbitration provision at issue here unenforceable, the Plaintiff must assert a  
2 generally applicable contract defense, such as fraud, duress, or unconscionability. *Concepcion*, 131  
3 S. Ct. at 1744. In this case, the Plaintiff asserts that the arbitration provision is not binding because  
4 it violates Guam law, specifically, Section 32104(c). Section 32104(c), however, is a local law that  
5 applies only to arbitration agreements and not to contracts in general. As such, the court finds that  
6 Section 32104(c) is preempted by the FAA.

7 The Plaintiff's second argument is that the arbitration provision is void as against the public  
8 interest. *See* Opp'n at 6, ECF No. 56. The Plaintiff cites to Guam law which provides that “[a]ll  
9 contract[s] which have for their object, directly or indirectly, to exempt anyone from responsibility  
10 for his own fraud, or willful injury to the person or property of another, or violation of law, whether  
11 willful or negligent, are against the policy of the law.” 18 GUAM CODE ANN. § 88012. The Plaintiff  
12 contends that it has specifically alleged fraudulent conduct committed by the Defendants in Counts  
13 IV, V, VII and VIII of the Complaint, and the Defendants “should not be allowed to shirk their  
14 responsibility for the fraud they committed by availing themselves of . . . arbitration[.]” Opp'n at 6,  
15 ECF No. 56.

16 The court finds no merit in the Plaintiff's argument. The arbitration provision in the  
17 Agreement does not exempt the Defendants from responsibility for the fraud they allegedly  
18 perpetrated against the Plaintiff. There is no attempt to avoid liability; rather, the Defendants are  
19 simply seeking to enforce the arbitration provision agreed to by the Plaintiff.

20 As noted previously, the court may not review the merits of the dispute; the court's role is  
21 limited to determining whether a valid agreement to arbitrate exists and, if so, whether the  
22 agreement encompasses the dispute at issue. *Cox v. Ocean View Hotel Corp.*, 533 F.3d 1114, 1119  
23 (9th Cir. 2008). The court has determined that a valid agreement to arbitrate exists and that the  
24 Defendants may enforce said agreement. Because the arbitration provision in the Agreement is  
25 written broadly so as to include “any controversy or claim arising out of or relating to” the  
26 Agreement, the court finds that the arbitration provision encompasses the claims asserted against  
27 the Defendants. “Generally, when examining an arbitration contract, ‘the FAA establishes that, as  
28 a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in

1 favor of arbitration . . . .” *Momot v. Mastro*, 652 F.3d 982, 987 (9th Cir. 2011) (quoting *Moses H.*  
2 *Cone Mem'l Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1 at 24–25 (1983)). In light of this strong  
3 federal policy, enforcement of an arbitration agreement “should not be denied unless it can be said  
4 with positive assurance that the arbitration clause is not susceptible of an interpretation that covers  
5 the asserted dispute.” *AT & T Technologies, Inc. v. Commc'n Workers*, 475 U.S. 643, 650 (1986);  
6 *see also United Food and Comm. Workers Union v. Geldin Meat Co.*, 13 F.3d 1365, 1368 (9th Cir.  
7 1993) (“Doubts should be resolved in favor of coverage.”).

8 Finally, the Plaintiff argues that this matter must remain with this court because there exists  
9 a dispute that has arisen about the arbitration provision. Opp'n at 7, ECF No. 56. The Plaintiff  
10 cites to various cases and contends that “where the claim is – as it is here – of fraud in the  
11 inducement of the arbitration provisions, this is determined by the [c]ourt; and not the arbitrator.”  
12 *Id.*

13 Challenges to the validity of an arbitration agreement can be divided into two categories:  
14 (1) challenges specific to the arbitration provision itself (e.g., claims the arbitration provision  
15 violates some aspect of state or federal law); or (2) challenges to the agreement as a whole, such  
16 as assertions that there was fraud in the inducement or that the entire contract is void because of an  
17 illegal provision. *Buckeye Check Cashing, Inc. v. Cardegn*a, 546 U.S. 440, 444 (2006). Under  
18 Section 4 of the FAA, federal courts may only adjudicate a challenge to the validity of the  
19 arbitration clause *itself* and cannot adjudicate claims which challenge the validity of the contract  
20 as a whole. *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 403–04 (1967) (citing  
21 15 U.S.C. § 4). Thus, a challenge to an arbitration clause must not be the same general complaint  
22 lodged against the entire contract, but must instead allege why the arbitration clause itself,  
23 independent of the rest of the contract, is invalid. *Id.* at 1000–01. Nothing proffered by the Plaintiff  
24 in its Complaint or Opposition Brief allege the Defendants' misrepresentations are related to the  
25 arbitration clause specifically. Rather, the Plaintiff's claims of fraud in the inducement applies to  
26 the entire Agreement. Accordingly, consideration of this argument by the court is improper.

27 ///

28 ///

### III. CONCLUSION

Based on the above analysis, the court finds that the Defendants have standing to compel arbitration although they were not signatories to the Agreement. Further, the court finds the arbitration provision is valid and is broad enough to encompass the disputes at issue here. Therefore, the court grants the Motion to Compel Arbitration. Furthermore, Section 3 of the FAA provides that a court “shall on application of one of the parties stay the trial of the action” “upon any issue referable to arbitration under an agreement in writing for such arbitration.” 9 U.S.C. § 3. Accordingly, the court grants the alternative request to stay this action pending the arbitration proceedings.

Finally, since the Defendants prevailed on their Motion to Compel Arbitration, the court directs the Defendants to file a report with the court on January 2, 2015, and every three (3) months thereafter, advising it of the status of the arbitration proceedings.

IT IS SO ORDERED.



/s/ **Frances M. Tydingco-Gatewood**  
**Chief Judge**  
**Dated: Sep 30, 2014**